

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Marquette Housing Commission	County Marquette
Audit Date 9/30/05	Opinion Date 1/6/06	Date Accountant Report Submitted to State: 2/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

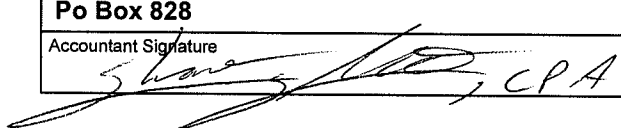
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address Po Box 828		City Iron Mountain	State MI
Accountant Signature 		ZIP 49801	Date 2-27-06

MARQUETTE HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended September 30, 2005

MARQUETTE HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:

L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:

Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Marquette Housing Commission
Marquette, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Marquette Housing Commission, a component unit of the City of Marquette, Michigan, as of and for the year ended September 30, 2005 as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Marquette Housing Commission as of September 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2006 on our consideration of the Marquette Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Marquette Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*", and is also not a required part of the basic financial statements of Marquette Housing Commission. The Financial Data Schedule and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

January 6, 2006

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Marquette Housing Commission's financial performance provides an overview of the financial activities for the year ended September 30, 2005. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$3,768,650 at September 30, 2005 compared to \$3,902,042 at September 30, 2004.
- The Commission's operating revenues totaled \$1,609,458 for September 30, 2005 and \$1,664,706 for September 30, 2004, while operating expenses totaled \$1,761,091 for September 30, 2005 and \$1,732,234 for September 30, 2004.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets (on pages 9 to 11) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities"? The Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets at September 30, 2005 decreased \$(133,392) from September 30, 2004.

Table 1
NET ASSETS

	September 30,	
	2005	2004
Assets		
Current assets	\$ 802,603	\$ 759,378
Capital assets (net)	<u>3,275,598</u>	<u>3,325,973</u>
Total assets	<u>4,078,201</u>	<u>4,085,351</u>
Liabilities		
Current liabilities	165,259	147,082
Noncurrent liabilities	<u>144,292</u>	<u>36,227</u>
Total liabilities	<u>309,551</u>	<u>183,309</u>
Net Assets		
Invested in capital assets, net of related debt	3,157,577	3,325,973
Unrestricted	<u>611,073</u>	<u>576,069</u>
Net Assets	<u>\$3,768,650</u>	<u>\$3,902,042</u>

Net assets of the Commission stood at \$3,768,650 at September 30, 2005 compared to \$3,902,042 at September 30, 2004. Unrestricted net business assets were \$611,073 compared to \$576,069 at September 30, 2004. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

Table 2**CHANGE IN NET ASSETS**

	Year Ended September 30,	
	2005	2004
Revenues:		
Program revenues:		
Charges for services	\$ 467,215	\$ 503,971
Program grants and subsidies	1,097,495	1,116,686
General revenues:		
Other revenues	44,748	44,049
Unrestricted investment earnings	18,241	12,588
 Total revenues	 1,627,699	 1,677,294
 Program Expenses:		
Operating expenses	(1,761,091)	(1,732,234)
 Change in net assets	 (133,392)	 (54,940)
 Net assets - beginning of period	 <u>3,902,042</u>	 <u>3,956,982</u>
 Net assets - end of period	 <u>\$ 3,768,650</u>	 <u>\$ 3,902,042</u>

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled \$1,627,699 compared to \$1,677,294 during September 30, 2004. The Commission's average unit months leased on a monthly basis had increased during the current year. In addition, HUD operating funds and capital funding grants had decreased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.

CAPTIAL ASSETS

Capital Assets

The Commission had \$10,537,546 invested in a variety of capital assets including land, equipment and buildings at September 30, 2005 compared to \$10,170,501 at September 30, 2004.

Table 3

CAPITAL ASSETS Business - Type Activity

	September 30,	
	2005	2004
Land and improvements	\$1,104,982	\$1,104,982
Building and improvements	8,824,508	8,473,982
Equipment	<u>608,056</u>	<u>591,537</u>
Total	10,537,546	10,170,501
Less accumulated depreciation	<u>(7,261,948)</u>	<u>(6,844,528)</u>
NET CAPITAL ASSETS	<u>\$3,275,598</u>	<u>\$3,325,973</u>

The Commission invested \$377,847 in capital assets during the year ended September 30, 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2005/2006. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2005/2006 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Bonnie Peltó, at 316 Pine Street, Marquette, Michigan 49855, or call 906-226-7559.

MARQUETTE HOUSING COMMISSION

STATEMENT OF NET ASSETS
Proprietary Fund

September 30, 2005

	<u>Housing Commission</u>	<u>Component Unit</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 359,312	\$ 45,656
Accounts receivable	15,665	-
Investments	374,298	-
Prepaid expenses	42,819	-
Inventory	10,509	-
TOTAL CURRENT ASSETS	<u>802,603</u>	<u>45,656</u>
NONCURRENT ASSETS:		
Capital assets	10,537,546	21,838
Less accumulated depreciation	(7,261,948)	(21,591)
NET CAPITAL ASSETS	<u>3,275,598</u>	<u>247</u>
TOTAL ASSETS	<u>\$ 4,078,201</u>	<u>\$ 45,903</u>
LIABILITIES:		
Accounts payable	\$ 25,830	\$ 56
Accrued liabilities	98,945	3,931
Compensated absences	28,617	-
Notes payable	11,867	-
TOTAL CURRENT LIABILITIES	<u>165,259</u>	<u>3,987</u>
NONCURRENT LIABILITIES:		
Notes payable	106,154	-
Compensated absences	38,138	-
TOTAL NONCURRENT LIABILITIES	<u>144,292</u>	<u>-</u>
TOTAL LIABILITIES	<u>309,551</u>	<u>3,987</u>
NET ASSETS:		
Investment in capital assets, net of related debt	3,157,577	247
Unrestricted net assets	611,073	41,669
NET ASSETS	<u>\$ 3,768,650</u>	<u>\$ 41,916</u>

The accompanying notes to financial statements are an integral part of this statement.





**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

MARQUETTE HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2005

FUNCTIONS/PROGRAMS	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-Type Activities	Component Unit
BUSINESS-TYPE ACTIVITIES:						
Public Housing	\$ 1,761,091	\$ 467,215	\$ 1,097,495	\$ -	\$ (196,381)	\$ -
Component Unit	<u>57,603</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,603)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,818,694</u>	<u>\$ 467,215</u>	<u>\$ 1,097,495</u>	<u>\$ -</u>	<u>\$ (196,381)</u>	<u>\$ (57,603)</u>
General revenues:						
Unrestricted investment earnings					18,241	1,449
Other					<u>44,748</u>	<u>76,015</u>
Total general revenues					<u>62,989</u>	<u>77,464</u>
Changes in net assets					(133,392)	19,861
Net assets, beginning of year					<u>3,902,042</u>	<u>22,055</u>
Net assets, end of year					<u>\$ 3,768,650</u>	<u>\$ 41,916</u>

The accompanying notes to the financial statements are an integral part of this statement.

MARQUETTE HOUSING COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
Proprietary Fund**

For the Year Ended September 30, 2005

	<u>Housing Commission</u>	<u>Component Unit</u>
OPERATING REVENUES:		
Tenant revenue	\$ 467,215	\$ -
Program grants-subsidies	1,097,495	-
Other income	<u>45,379</u>	<u>76,015</u>
 TOTAL OPERATING REVENUES	 <u>1,610,089</u>	 <u>76,015</u>
OPERATING EXPENSES:		
Administration	338,959	56,035
Tenant services	2,599	-
Utilities	276,351	-
Maintenance	460,140	1,427
General	81,831	-
Casualty income	(167)	-
Housing assistance payments	148,789	-
Other expenses	25,000	-
Depreciation	<u>427,589</u>	<u>141</u>
 TOTAL OPERATING EXPENSES	 <u>1,761,091</u>	 <u>57,603</u>
 OPERATING (LOSS) INCOME	 <u>(151,002)</u>	 <u>18,412</u>
OTHER INCOME (EXPENSES):		
Interest income	18,241	1,449
(Loss) on sale of fixed assets	<u>(631)</u>	<u>-</u>
 TOTAL OTHER INCOME (EXPENSES)	 <u>17,610</u>	 <u>1,449</u>
 CHANGE IN NET ASSETS	 (133,392)	 19,861
NET ASSETS, BEGINNING OF YEAR	<u>3,902,042</u>	<u>22,055</u>
 NET ASSETS, END OF YEAR	 <u>\$ 3,768,650</u>	 <u>\$ 41,916</u>

The accompanying notes to financial statements are an integral part of this statement.



MARQUETTE HOUSING COMMISSION

STATEMENT OF CASH FLOWS **Proprietary Fund**

For the Year Ended September 30, 2005

	<u>Housing Commission</u>	<u>Component Unit</u>
OPERATING ACTIVITIES:		
Cash received from customers	\$ 465,857	\$ -
Cash received from grants and subsidies	1,087,574	-
Cash payments to suppliers for goods and services	(786,713)	(13,306)
Cash payments for wages and related benefits	(561,188)	(44,501)
Payment in lieu of taxes	(12,917)	-
Other receipts	<u>45,379</u>	<u>76,015</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>237,992</u>	<u>18,208</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(377,846)	-
Proceeds from new debt	<u>118,021</u>	<u>-</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(259,825)</u>	<u>-</u>
INVESTING ACTIVITIES:		
Purchase of investments	(7,748)	-
Investment income	<u>18,241</u>	<u>1,449</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>10,493</u>	<u>1,449</u>
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	(11,340)	19,657
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>370,652</u>	<u>25,999</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 359,312</u>	<u>\$ 45,656</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (151,002)	\$ 18,412
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	427,589	141
Changes in assets and liabilities:		
Decrease (Increase) in receivables	(11,279)	-
Decrease (Increase) in inventory	7,281	-
Decrease (Increase) in prepaids	(42,819)	-
Increase (Decrease) in accounts payable	2,926	(1,778)
Increase (Decrease) in accrued liabilities	<u>5,296</u>	<u>1,433</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 237,992</u>	<u>\$ 18,208</u>

The accompanying notes to financial statements are an integral part of this statement.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Marquette Housing Commission (Commission) was formed by the City of Marquette Commission under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the City Manager.

The Commission manages 254 units of low rent public housing and 50 section 8 vouchers of which, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined the Marquette Commission is a component unit of the City of Marquette, Michigan and the Lake Superior Youth Center (Center), a Michigan 501(c)(3) organization, is included as a discretely presented component unit of the Commission. The Center provides a psychologically and physically safe environment for the children of the Lake Superior Village. They provide the children with an environment to access tutoring, mentoring, relationships, and safe activities for the purpose of creating positive developmental assets, and operates under a Board of Directors. The Center does not prepare separately issued financial statements. Copies of internally generated financial statements can be obtained by contacting the Commission.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities, and Statement of Revenues, Expenses and Change in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities, and Statement of Revenues, Expenses and Change in Net Assets are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Inventory – Inventory is recorded at the lower of cost or market and primarily consisted of maintenance supplies and materials.
- d. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- e. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$1,000 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Equity is classified as net assets and displayed in two components:

- 1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on October 1st. The operating budget includes proposed expenses and the means of financing them. Prior to September 30th, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to September 30th.

MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

	<u>Housing Commission</u>	<u>Component Unit</u>
Petty cash	\$ 100	\$ 200
Checking accounts	305,745	45,456
Money market and savings accounts	<u>53,467</u>	<u>-</u>
TOTAL	<u>\$ 359,312</u>	<u>\$ 45,656</u>

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require, and the Commission does not have a policy for, deposit custodial credit risk. As of September 30, 2005, the Commission's and Component Unit's cash and equivalents were not exposed to credit risk, due to them being fully insured and collateralized.

Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>	
		<u>Less Than 1 Year</u>	<u>5-10 Years</u>
Certificates of Deposit	<u>\$374,298</u>	<u>\$369,298</u>	<u>\$5,000</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.





MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Credit Risk. Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

Concentration of Credit Risk. The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. The Commission's investments and balances are with the following financial institutions:

Wells Fargo Bank, Marquette, MI	\$ 93,000
Northern Michigan Bank, Marquette, MI	113,564
Superior Range Credit Union, Marquette, MI	87,145
mBank, Marquette, MI	75,589
River Valley State Bank, Marquette, MI	<u>5,000</u>
Total	<u>\$ 374,298</u>

NOTE C - CAPITAL ASSETS

A summary of capital assets as of September 30, 2005 is as follows:

	Balance 10-1-04	Additions	Deletions	Balance 9-30-05
Land and improvements	\$ 1,104,982	\$ -	\$ -	\$ 1,104,982
Building and improvements	8,473,982	350,526	-	8,824,508
Equipment	<u>591,537</u>	<u>27,321</u>	<u>(10,802)</u>	<u>608,056</u>
	10,170,501	<u>\$ 377,847</u>	<u>\$ (10,802)</u>	10,537,546
Accumulated depreciation	<u>(6,844,528)</u>	<u>\$ (427,589)</u>	<u>\$ 10,169</u>	<u>(7,261,948)</u>
Net capital assets	<u>\$3,325,973</u>			<u>\$3,275,598</u>

Depreciation expense for the year was \$427,589.

NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

(Continued)

NOTE E - USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended September 30, 2005 totaled \$1,610,089 of which \$1,097,495 or 68.2% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G - PENSION PLAN

Plan Description

The Commission participates in a pension plan through the City of Marquette. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute 5% of wages along with an actuarially determined rate; the current rate ranges from 0.00% to 3.34% of annual covered payroll. City employees currently make no contribution to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

(Continued)

NOTE G – PENSION PLAN (Continued)

Annual Pension Cost

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.5% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2003	\$ 456,453	100%	\$ -
6/30/2004	\$ 521,245	100%	-
6/30/2005	\$ 545,201	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability(AAL) Entry Age (b)</u>	<u>(Unfunded) (AAL) (UAAL) (b-a)</u>	<u>Funded Ratio (ab)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)c)</u>
6/30/2002	20,799,934	24,588,188	(3,788,254)	85%	5,227,706	72%
6/30/2003	22,629,322	25,997,838	(3,368,516)	87%	5,393,986	62%
6/30/2004	24,187,555	28,468,133	(4,280,578)	85%	5,426,755	79%



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

(Continued)

NOTE H – CHANGES IN LONG-TERM OBLIGATIONS

During the year ended September 30, 2005, the following changes occurred in long-term obligations.

	<u>Balance</u> <u>10/1/2004</u>	<u>Additons</u>	<u>Repayments</u>	<u>Balance</u> <u>9/30/2005</u>	<u>Due Within</u> <u>One Year</u>
Notes Payable	\$ -	\$ 118,021	\$ -	\$ 118,021	\$ 11,867
Compensated					
Absences	<u>64,790</u>	<u>1,965</u>	<u>-</u>	<u>66,755</u>	<u>28,617</u>
Total	<u>\$ 64,790</u>	<u>\$ 119,986</u>	<u>\$ -</u>	<u>\$ 184,776</u>	<u>\$ 40,484</u>

NOTE I - LONG-TERM OBLIGATIONS

Long-term obligations at September 30, 2005 comprised of the following amounts:

1. 2005 notes payable due in monthly installments of \$1,559 including interest of 3%. Matures in 2012.	\$118,021
2. Vested sick and vacation pay.	<u>66,755</u>
Total long-term obligations.	<u>\$184,776</u>

The annual requirements of long-term obligations outstanding as of March 31, 2005 are as follows:

<u>Year Ended</u> <u>September 30</u>	<u>Bonds Payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2006	\$ 11,867	\$ 3,727	\$ 15,594
2007	15,744	2,969	18,713
2008	16,223	2,490	18,713
2009	16,716	1,997	18,713
2010	17,225	1,488	18,713
2011-2013	<u>40,246</u>	<u>1,408</u>	<u>41,654</u>
TOTAL	<u>\$ 118,021</u>	<u>\$ 14,079</u>	<u>\$ 132,100</u>

Interest charged to expenses totaled \$0.



MARQUETTE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

(Continued)

NOTE J – CONTINGENCIES

A lawsuit was filed from a prior tenant claiming the Commission disclosed personal information to other tenants without their permission, in addition to inappropriate care during a medical situation. As of September 30, 2005, the suit was still pending and had no action taken from either party as of the date of the Auditors' Report. The outcome of this suit is not know, therefore, the Commission has not recorded any accrued liability.



**SUPPLEMENTAL
INFORMATION**



MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

September 30, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
ASSETS						
CURRENT ASSETS:						
Cash:						
111	Cash - unrestricted	\$ 45,656	\$ 243,804	\$ 69,086	\$ -	\$ 358,546
112	Cash - restricted	-	46,422	-	-	46,422
100	Total cash	45,656	290,226	69,086	-	404,968
Accounts and notes receivables:						
122	Accounts receivable- HUD other projects	-	8,859	-	2,837	11,696
126	Accounts receivable- Tenant - Dwelling Rents	-	3,969	-	-	3,969
126.1	Allowance for doubtful accounts - dwelling rents	-	-	-	-	-
120	Total receivables, net of allowances for doubtful accounts	-	12,828	-	2,837	15,665
Current investments						
131	Investments - unrestricted	-	374,298	-	-	374,298
142	Prepaid expenses	-	42,819	-	-	42,819
143	Inventories	-	10,509	-	-	10,509
144	Interprogram due from	-	7,982	-	1,023	9,005
150	TOTAL CURRENT ASSETS	45,656	738,662	69,086	3,860	857,264

See accompanying notes to financial statements



MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

September 30, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Low Rent Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
NONCURRENT ASSETS:						
Fixed assets:						
161	Land	-	187,180	-	-	187,180
162	Buildings	-	8,387,225	-	437,283	8,824,508
163	Furniture, equipment & machinery - dwellings	-	141,032	-	-	141,032
164	Furniture, equipment & machinery - administration	21,838	453,546	13,478	-	488,862
165	Leasehold improvements	-	892,468	-	25,334	917,802
166	Accumulated depreciation	(21,591)	(7,231,220)	(13,478)	(17,250)	(7,283,539)
160	Total fixed assets, net of accumulated depreciation	247	2,830,231	-	445,367	3,275,845
180	TOTAL NONCURRENT ASSETS	247	2,830,231	-	445,367	3,275,845
190	TOTAL ASSETS	\$ 45,903	\$ 3,568,893	\$ 69,086	\$ 449,227	\$ 4,133,109

See accompanying notes to financial statements



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

September 30, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
LIABILITIES AND NET ASSETS						
LIABILITIES:						
CURRENT LIABILITIES						
312	Accounts payable ≤ 90 days	\$ 56	\$ 24,319	\$ 236	\$ 1,275	\$ 25,886
321	Accrued wages / payroll taxes	3,931	41,677	1,101	-	46,709
322	Accrued compensated absences - current portion	-	26,629	1,988	-	28,617
331	Accounts payable - HUD PHA programs	-	-	7,274	-	7,274
333	Accounts payable - other government	-	11,452	-	-	11,452
341	Tenant security deposits	-	28,490	-	-	28,490
342	Deferred revenues	-	7,928	-	1,023	8,951
343	Current portion of long-term debt	-	11,867	-	-	11,867
347	Interprogram due to	-	1,023	6,420	1,562	9,005
310	TOTAL CURRENT LIABILITIES	3,987	153,385	17,019	3,860	178,251
351	Long-term debt	-	106,154	-	-	106,154
354	Accrued compensated absences - non current	-	38,138	-	-	38,138
350	TOTAL NONCURRENT LIABILITIES	-	144,292	-	-	144,292
300	TOTAL LIABILITIES	3,987	297,677	17,019	3,860	322,543

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

September 30, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Low Rent Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>NET ASSETS</u>						
Contributed Capital:						
508.1	Investment in capital assets, net of related debt	247	2,712,210	-	445,367	3,157,824
512.1	Unrestricted net assets	41,669	559,006	52,067	-	652,742
513	TOTAL NET ASSETS	41,916	3,271,216	52,067	445,367	3,810,566
600	TOTAL LIABILITIES AND NET ASSETS	\$ 45,903	\$ 3,568,893	\$ 69,086	\$ 449,227	\$ 4,133,109



MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

For the Year Ended September 30, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
REVENUE:						
703	Net tenant rental revenue	\$ -	\$ 446,724	\$ -	\$ -	\$ 446,724
704	Tenant revenue - other	-	20,491	-	-	20,491
705	Total tenant revenue	-	467,215	-	-	467,215
706	HUD PHA grants	-	643,314	173,887	35,000	852,201
706.1	Capital grants	-	-	-	245,294	245,294
711	Investment income - unrestricted	1,449	17,979	231	-	19,659
715	Other revenue	51,015	45,075	304	-	96,394
716	Gain/loss on sale of fixed assets	-	(631)	-	-	(631)
720	Investment income - restricted	-	-	31	-	31
700	TOTAL REVENUE	52,464	1,172,952	174,453	280,294	1,680,163
EXPENSES:						
Administrative						
911	Administrative salaries	41,509	153,939	10,856	-	206,304
912	Auditing fees	2,475	2,500	800	-	5,775
914	Compensated absences	-	25,788	-	-	25,788
915	Employee benefit contributions- administrative	4,425	56,684	4,029	-	65,138
916	Other operating- administrative	7,626	77,758	6,605	-	91,989
	Total Administrative	56,035	316,669	22,290	-	394,994

See accompanying notes to financial statements

MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

For the Year Ended September 30, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Tenant services						
924	Tenant services - other	-	2,599	-	-	2,599
Utilities						
931	Water	-	51,436	-	-	51,436
932	Electricity	-	82,455	-	-	82,455
933	Gas	-	140,888	-	-	140,888
938	Other utilities expense	-	1,572	-	-	1,572
	Total Utilities	-	276,351	-	-	276,351
Maintenance						
941	Ordinary maintenance and operations - labor	-	229,036	-	-	229,036
942	Ordinary maintenance and operations - materials & other	411	55,917	-	-	56,328
943	Ordinary maintenance and operations - contract costs	1,016	77,669	-	-	78,685
945	Employee benefit contributions- ordinary maintenance	-	87,478	-	-	87,478
	Total Maintenance	1,427	450,100	-	-	451,527

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

For the Year Ended September 30, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
General expenses						
961	Insurance premiums	-	65,461	500	-	65,961
963	Payments in lieu of taxes	-	11,452	-	-	11,452
964	Bad debt - tenant rents	-	4,418	-	-	4,418
	Total General Expenses	-	81,331	500	-	81,831
969	TOTAL OPERATING EXPENSES	57,462	1,127,050	22,790	-	1,207,302
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(4,998)	45,902	151,663	280,294	472,861
971	Extraordinary maintenance	-	10,040	-	-	10,040
972	Casualty losses	-	(167)	-	-	(167)
973	Housing assistance payments	-	-	148,789	-	148,789
974	Depreciation expense	141	410,762	-	16,827	427,730
900	TOTAL EXPENSES	57,603	1,547,685	171,579	16,827	1,793,694

See accompanying notes to financial statements



MARQUETTE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

For the Year Ended September 30, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Other financing sources (uses)						
1001	Operating transfers in	25,000	10,000	-	-	35,000
1002	Operating transfers out	-	-	-	(35,000)	(35,000)
1010	Total other financing sources (uses)	25,000	10,000	-	(35,000)	-
1000 EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES						
		\$ 19,861	\$ (364,733)	\$ 2,874	\$ 228,467	\$ (113,531)
MEMO account information						
1103	Beginning equity	22,055	3,186,468	49,479	666,381	3,924,383
1104	Prior Period Adjustments, Equity Transfers	-	449,481	(286)	(449,481)	(286)
1113	Maximum Annual Contributions Commitment (Per ACC)	-	-	181,161	-	181,161
1116	Total Annual Contributions Available	-	-	19,317	-	19,317
1120	Unit months available	-	3,048	600	-	3,648
1121	Number of unit months leased	-	2,956	579	-	3,535

See accompanying notes to financial statements



MARQUETTE HOUSING COMMISSION

FEDERAL AUDIT REPORTS

For the Year Ended September 30, 2005

MARQUETTE HOUSING COMMISSION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Marquette Housing Commission
Marquette, Michigan

We have audited the financial statements of the business-type activities of the Marquette Housing Commission as of and for the year ended September 30, 2005, which collectively comprise the Marquette Housing Commission's basic financial statements, and have issued our report thereon dated January 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marquette Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marquette Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Marquette Housing Commission in a separate letter dated January 6, 2006.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Anderson, Tackman & Co. PLLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

January 6, 2006



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Commissioners
Marquette Housing Commission
Marquette, Michigan

Compliance

We have audited the compliance of Marquette Housing Commission with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended September 30, 2005. Marquette Housing Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Marquette Housing Commission's management. Our responsibility is to express an opinion on Marquette Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marquette Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marquette Housing Commission's compliance with those requirements.

In our opinion Marquette Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of Marquette Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Marquette Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants, that would be material in relation to a major federal program being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Tackman & Co. PLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

January 6, 2006

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



MARQUETTE HOUSING COMMISSION

For the Year Ended September 30, 2005

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Federal Grantor/Pass Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Expensed as of 9-30-04</u>	<u>9-30-05 Federal Expenditures</u>
Operating Subsidy	14.850	<u>\$ 643,314</u>	<u>\$ -</u>	<u>\$ 643,314</u>
Section 8 Rental Voucher	14.871	<u>\$ 173,887</u>	<u>\$ -</u>	<u>\$ 173,887</u>
Capital Funding	14.872			
501-03		\$ 483,732	\$ 243,545	\$ 213,803
501-04		<u>427,986</u>	<u>-</u>	<u>66,491</u>
		<u>\$ 911,718</u>	<u>\$ 243,545</u>	<u>\$ 280,294</u>
Total Department of Housing and Urban Development				<u>\$ 1,097,495</u>
TOTAL FEDERAL EXPENDITURES				<u>\$ 1,097,495</u>

See accompanying notes to the schedule of expenditures of federal awards.



MARQUETTE HOUSING COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Marquette Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B - COST REPORTS

Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the modernization cost reports.

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MARQUETTE HOUSING COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2005

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion of the general purpose financial statements of the Marquette Housing Commission.
2. There were no reportable conditions relating to the audit of the general purpose financial statements.
3. There were no instances of noncompliance material to the general purpose financial statements of the Marquette Housing Commission.
4. There were no reportable conditions relating to the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Marquette Housing Commission expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Marquette Housing Commission.
7. The programs tested as major programs included:
 - A. Operating Subsidy – CFDA 14.850
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Marquette Housing Commission was determined to be a low-risk auditee.

B. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no findings or questioned costs.

C. PRIOR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no prior findings or questioned costs.





ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:

L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:

Private Companies Practice Section
American Institute of Certified
Public Accountants

January 6, 2006

Board of Commissioners
Marquette Housing Commission
Marquette, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Marquette Housing Commission for the year ended September 30, 2005, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated January 6, 2006, on the financial statements of the Marquette Housing Commission.

1. Also during the review of cash and investments it was noted that the Commission did not have depository agreements in place with all the banks it does business with.

Recommendation

The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000. Although the Commission's funds were fully insured at September 30, 2005, HUD still requires the Commission to have depository agreements signed by all banks.

Marquette Housing Commission
January 6, 2006
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We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC

Shane M. Ellison, CPA
Principal